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**Testimony of the  
National Newspaper Association  
(NNA)**

**Before the President's Commission  
on the  
United States Postal Service**

**By**

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**And**

**Chairman  
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May 28, 2003**

## ***Background and Summary***

My name is Max Heath. I am vice president of Landmark Community Newspapers, Inc., which privately owns 47 weekly, semi-, and tri-weekly and 5 daily newspapers in the United States. The average size of our weeklies is about 5,000 and of our dailies is 17,000.

I am also chairman of the National Newspaper Association's Postal Committee, working with NNA's 3,000+ newspaper members around the United States on postal policy, pricing, rules and delivery. NNA is a 118-year-old organization serving the community press. Its headquarters since 2002 has been in Columbia, MO, and it maintains a full government relations program and a Washington office in Arlington, VA. We have members in all 50 states and virtually every Congressional district, and we work closely with the independently-governed state newspaper associations, whom I often also advise. NNA has been involved in postal policy since the 19th Century.

While Landmark's newspapers serve the sort of smaller communities commonly served by NNA newspapers, I would say that our company is somewhat unlike most other NNA publishers, in that the typical NNA paper is a family-owned title that may have been in the same family for two or more generations. Most of these newspapers are either single titles in their companies or belong to small groups of three to five papers all publishing in one area—likely using one common printing plant, and using within-county mail.

I provided testimony to the Commission in February on the challenges facing newspapers in the mail. My objective here is to provide additional information on recommendations the Commission might make to improve the efficiency of newspaper delivery and to ensure that newspapers and all Periodicals remain the viable “anchor in the mail” of the mailbox as the mail mix shifts and changes.

My purpose here today is to address issues of standardization and automation in mail processing, and to raise concerns with the Postal Service's development of Negotiated Service Agreements.

I have three recommendations for this Commission:

1. The Commission should examine the Postal Service's use of its Standard Operating Plan for Periodicals mail and recommend its consistent use to provide timely delivery to small-volume publishers.
2. The Commission should encourage a preference for local mail entry and vigorous worksharing recognizing the value of carrier-route presort over a lock-step automation upstream of local delivery units.
3. The Commission should reinforce the Postal Rate Commission's recent guidance on Negotiated Service Agreements and recommend legislation that would prohibit USPS from entering into volume-based agreements with large mailers that would significantly alter the competitive mix in the various markets that USPS affects.

***1. The Commission should examine the Postal Service's use of its Standard Operating Plan for Periodicals mail and recommend its consistent use to provide timely service to small publishers.***

It is a common myth that newspapers are somehow foreign to the mailstream. Newspapers have been part of the USPS mailstream from the beginning of colonial America when the first colonial postmaster James Campbell published his newspaper and delivered it free through the mailstream that he controlled. The first thoroughly American postmaster general, Benjamin Franklin, was a publisher, as well, of course, and he took full advantage of the privileges extended to those who used the postroads to distribute information throughout their reading areas. Early postal history is replete with Congressional affirmations of the importance of keeping newspapers in the mail.

While many daily newspapers today are delivered outside the mail, a good many of them are also delivered by USPS—particularly in sparsely populated areas. And mail delivery is the predominant distribution choice of weekly and semi-weekly newspapers, which may be an important key to the readership of mailbox contents in the future.

My previous testimony focused upon within-county mail, which is a subclass of the Periodicals mail class, and which is the mailing class most used by local newspapers. I showed that although the Postal Service has experienced serious difficulties in managing the costs of processing periodicals mail and overall periodicals mail has not consistently made the expected contribution to USPS overhead, that situation is far from true for within-county mail.

In the most recent Cost and Revenue Analysis for Fiscal Year 2002, just released, that good story continues. Within-county mail fully covered its attributable costs and contributed an additional two percent to the institutional costs of the Postal Service. This contribution is in excess of the statutory

requirement, which pegs within-county contribution at 50 percent of the corresponding commercial mail class, which is outside county (formerly regular rate) periodicals. Unfortunately, because of cost control problems, outside county mail slipped below 100 percent cost coverage in 2002—a problem that I believe is being rectified. So within-county is paying more than the law requires, and has done so consistently for the past several years.

An important factor in understanding newspapers in the mail is examining its role as a motivator for coming to the mailbox.

The most recent Household Diary Study shows an interesting trend in the preferences of Americans. As the number of pieces of first-class mail received by households has increased by 28% since 1987, the pieces of Standard Mail have increased by 39%. Periodical mail pieces have fallen 18%.

The factors for this changed mail mix are widely known: electronic diversion, rising postage costs, increased target marketing driven by computerization and so forth. But one element stands out: people are receiving less of the mail they want and more of the mail they do not want. In Fiscal Year 2001, 58 percent of the mail in households was, by definition, mail that had been unrequested by householders, as it was Standard mail. It is not surprising that nearly 60% of householders say they wish they received less of it.

Many newspapers, including mine, operate advertising “shoppers” that are major users of Standard mail. It is not my intent here to disparage this important mail class. In fact, I suspect that some people responding to the Household Mail Diary questions define away some of the problem by considering the mail they want to be “information” and the mail they do not want to be “advertising,” even if it is all unsolicited. Our shoppers are widely read and appreciated. But one thing is demonstrable. Periodicals arrive in the household because of consumer choice, since a subscription or a request is a condition of class eligibility.

My concern is that if current trends continue—high Periodicals processing costs, service delays and new competitive pressures—the position in the mail mix of Periodicals will continue to decline. Since I consider the local newspaper to be one of those critical pieces that bring people to the mailbox, I have to strongly recommend to this Commission that it issue emphatic and imperative guidance to Congress and the Postal Service that Periodicals in the mail—particularly newspapers—must be a priority for the future.

Two of my concerns here are about issues that discourage newspaper mail. In this section, I address the standard operating procedure for periodicals processing.

One of the most time-consuming jobs in my role as NNA's chief volunteer expert on postal matters is helping newspapers to solve delivery problems.

These problems generally involve delivery outside the county, since within-county newspapers are usually carrier route sorted, sequenced, and drop-shipped into the local offices and are easily handled the same day received.

As a case in point, I recently fielded a series of complaints that arose from our members in Mississippi after two members of the Postal Rate Commission made field visits to Oxford and Brookhaven. Although the PRC has no direct role in delivery or operations, newspaper publishers flocked to the meetings with their sheaves of complaints from subscribers in the hope that the PRC could help. Handling of community newspapers' small volumes outside the county through the Jackson Processing and Distribution Center and beyond is inconsistent and slow, a problem that occurs across the country within large postal plants.

These are common complaints, as outside county newspaper delivery is spotty, causing loss of subscribers to our newspapers, and USPS. Nor is it unusual for

me to find the same malady afoot wherever the problems are: the plants are not using the Postal Service's own Periodicals Standard Operating Plan.

A great deal of commendable effort went into its development, with personal attention by USPS's customer-savvy vice president of Network Operations, Paul Vogel, and the cooperative efforts of Periodicals mailers. Distressingly, USPS senior management is unable to require its use, it appears. I do not know why. But I strongly suspect that if it were uniformly put into place, a number of other problems would melt away including, I would hope, some of the costs that inevitably arise when SOPs are set aside, and loss of Periodicals volume.

The key elements to it are:

- Periodicals should be processed concurrently with First-class mail when possible and, when not, periodicals labeled NEWS should be processed immediately after First-class mail.

- Recommended entry times should be worked out with publishers to align distribution and transportation schedules with delivery times.

- Periodicals must not be commingled with other mail classes during processing downstream, with the exception of finalization to the carrier route level.

- If Periodicals are routed on transportation to processing plants with mixed mail classes, they must be in separate containers and clearly labeled.

- Periodicals should be carried on the surface preferential mail network.

- Quality improvement teams should conduct random reviews of periodical mail operations.

--Periodicals must be delivered on the first scheduled delivery trip following receipt at the delivery unit, provided such delivery does not delay Express, Priority or First-Class mail.

These instructions are universally applicable to processing plants and delivery units, and may be carried out without respect to the configuration or locale of the USPS facilities. But in my investigations, I inevitably learn that where Periodicals are delayed, the SOP has not only been disregarded at the time, in many cases it has been forgotten, lost or has always been completely ignored.

This Commission could strengthen the hand of important executives like Vogel, and others who have worked to solve these problems, by issuing a firm recommendation that the Periodicals SOP be followed in every plant. To do less would be to deny “universal service” to newspaper publishers and subscribers.

***2. The Commission should encourage a preference for local mail entry and vigorous worksharing recognizing carrier-route presort value over a lock-step automation upstream of local delivery units.***

I serve as NNA’s senior industry representative on the Mailers Technical Advisory Committee (MTAC). Virtually every operational improvement in Periodicals mail has arisen from MTAC’s joint work with USPS senior management. I cannot praise the Postal Service more highly for its work in the past three decades to use MTAC to its best advantage.

Occasionally, MTAC is briefed on USPS plans that cause some of us to worry about unintended consequences. One such case at the moment involves the Postal Service’s plans to remove our mail from efficient carrier route sortation in delivery units and send it to the very plants that already delay our mail. This is a misguided attempt to automate “flats” to consumers upstream in an effort to provide packages to the carriers that are already sorted and ready for delivery.



These plans are known as Delivery Point Processing or Flat Sortation Sequencing, which are two of the options USPS is examining. I have spoken candidly to USPS about my concerns about these costly options. I present them to the Commission out of a sense that the USPS's drive to automate the entire carrier route presort mailstream, just because it can, will turn out to be the enemy of the goal to produce the most efficient mail. It will force local newspapers out of USPS.

Undeniably, increased automation has helped the Postal Service in many areas. The Postal Service commendably is seeking to duplicate in flats processing the successes it has garnered with letter mail. In improving flats handling, there will be opportunities to squeeze cost out of the system by doing more along these lines.

But, as its repeated efforts to capture similar synergies have shown, flats are not only different for their physical characteristics, but for their provenance. A great many of us who enter them are willing, able and demonstrably capable of performing mail preparation tasks that bypass the need for automation. There is no good reason to force these efforts out of the customers' arena for the sake of buying machines that will perform the work to the detriment of better service. It remains to be seen whether that will be the case for much of the flats mailstream.

But where newspapers are concerned, I am confident that the DPP and FSS strategies are going to fall short by failing to give timely, expected delivery and by nevertheless increasing costs, and our rates.

USPS has, with the exception of the FSM 1000, failed to consider newspaper sizes and shapes when it created specifications for sorting machines. Yet, on the other hand, it creates barcoding discounts and urges publishers to spray barcodes for automated sorting on their pieces as they come off the press.

We had high hopes for the new generation of sorting machine: the AFSM 100. I have seen that machine operate and I know it can handle most newspapers with ease. In fact, my own newspapers were used in initial performance tests.

Yet, USPS has set operating specs to exclude most newspaper handling. That means that our outside county mail will continue to be handled with the more costly FSM1000 or even more costly human labor—and our rates will continue to skyrocket with labor costs. All of our outside the county mail will be affected by this unfortunate development until USPS finds a better automation plan for newspapers.

What really frightens me is the notion that automated sorting may force newspapers to cease to handle their own carrier route, walk sequenced sorting, and their own delivery to local units, and to send all of the mail, unsorted, upstream in a large mix for automated processing. Since the machines appear to be off limits to us still, and since the local delivery is working well, I shudder to think how many newspapers will disappear from the mailbox if USPS goes through with its plans to remove them from delivery offices.

The future operating procedures for newspaper mail should be to:

- Create effective sorting machinery for outside county mail that *must* be handled in processing plants
- Encourage the maximum work-sharing of carrier route sorting, sequencing, and drop shipping for local mail.

This latter goal may mean a re-evaluation of the within-county definitions that do set somewhat arbitrary political boundaries upon mail that is, for all practical purposes, “within market” mail for most newspapers. We are confident such a reworking can be done if done carefully. But a decision by USPS to force all of this well-prepared mail into a glut of upstream confusion will be disastrous, if that is where we are headed, effectively killing the within-county rate structure.

Therefore, I recommend that the Commission consider in its examination of standardization procedures that mail efficiently and profitably sorted and delivered by the private sector to Delivery Units and Sectional Center Facilities should continue to be encouraged—not forced out of the system by a uniform automation scheme that will likely cost more in equipment and larger buildings than it will save. This does not fit my definition of universal service.

***3. The Commission should reinforce the Postal Rate Commission's recent guidance on Negotiated Service Agreements and recommend legislation that would prohibit USPS from entering into volume-based agreements with large mailers that would significantly alter the competitive mix in the various markets that USPS affects.***

My final concern rests with the decision issued last week by the Postal Rate Commission to recommend the Negotiated Service Agreement that the Postal Service has arranged with Capital One Financial Services, Inc. Within this decision are some important guideposts by Chairman George Omas that will, I fear, be lost in the zealous momentum toward new, big-mailer agreements.

NNA does not oppose NSAs on principle. Although we have concerns with the Postal Service's ability to manage the flood of requests it is surely to get and to ensure a benefit to all mailers from its agreements, we do not oppose NSAs that are based upon work-shared solutions to a more efficient mailstream.

We do oppose volume-based discounts, as we believe these are dangerous tools in a statutory monopoly and that they will undermine public faith in the Postal Service's ultimate mission of universal service. However, we most emphatically oppose them when they are launched into highly competitive markets that may be served by players of a variety of sizes. We were candid in our testimony to the PRC that our concern is with a flood of requests from very large advertising mailers for NSAs in which no newspaper could participate, and which will irreparably damage the advertising markets that support the news we publish.

Although much is made of the Postal Service's desire to offer each NSA to all similarly-situated mailers, no regard has been given to the plight of mailers that do compete with large volume mailers but will never be "similarly-situated" in their ability to develop large volumes. Professor John Panzar, the PRC's own witness in the just concluded case, warned that it would be possible for USPS to create a net loss of volume by squeezing a collection of small mailers to abandon markets or to at least reduce their own mail volumes because of the competitive pressures brought to bear by a large volume mailer operating within an NSA. There was no analysis in this most recent case of that phenomenon, although clearly the potential for loss exists. The primary reason, evidently, was that no small competitors of this NSA partner appeared. However, it may well have been true that none of these small competitors were aware of the case. Or that those who were simply lacked the resources to engage in the costly PRC proceedings to defend themselves. The same phenomenon could easily arise in the sensitive advertising markets.

Chairman Omas realized that some of these smaller businesses will clearly lack the wherewithal to oppose these NSA's. He criticized the Postal Service for failing to examine the state of the competitive markets it might affect with its agreements.

There is a tendency in the postal arena to examine the world as if mailing is all that counts. That is understandable for postal experts. I suppose if the only tool you have is a hammer, everything looks like a nail. But much commerce outside the mailstream is affected by the mailstream—and the Postal Service's experimentation through its NSA's provides it an awesome power to irreparably damage those markets if NSA's are not carefully chosen and designed.

In the final analysis, it is not clear that USPS is going to benefit from volume-based agreements. As the Commission recognized, it will never know whether it is giving away discounts for mail that it might have gotten anyway. If it makes a

serious error in judgment, all mailers will pay reparations. But it is clear from this initial NSA experiment that it is not yet prepared to examine all of the impacts of its NSAs upon the larger world—and it must do so if it intends to retain the broad public support for universal service and postal monopoly that it now enjoys.

Therefore, I strongly urge this Commission to recommend a statutory prohibition upon NSA's based solely or primarily upon volume discounts. If such NSAs are to be allowed, at the least the Commission must urge legislative action to prohibit NSAs without a) a probative market analysis by the Postal Service to accompany every NSA submission; b) a specific finding by the Postal Rate Commission that the market in which the NSA operates is sufficiently competitive to withstand the impact of a postal discount that only one or a few of the market participants will enjoy and c) a demonstration that small businesses within the NSA's intended marketplace will not be irreparably harmed.

## ***Conclusion***

This President's Commission has an awesome responsibility to recommend changes that will preserve the Postal Service in an uncertain future. Newspapers need a viable and efficient Postal Service, and America needs newspapers. It is too easy to overlook their importance in the mail mix, but the Household Diaries clearly show that consumers value them and that they remain a desirable component in a mail mix that increasingly brings things to the household that people did not necessarily want. Several operational changes in USPS could help to protect the newspaper in the mail mix. A statutory change to govern the Negotiated Service Agreements that USPS wishes to deploy in the future will be necessary to keep newspapers—particularly the desirable community newspaper—in the mailbox as viable competitors for advertising and attractive incentives for Americans to pick up their mail.